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No. 2519

United States Circuit Court of Appeals

FOR THE NINTH CIRCUIT

SHERMAN, CLAY & COMPANY,
a Corporation,
Appellant,
vs.
SEARCHLIGHT HORN COMPANY, a Corporation,
Appellee.

APPELLANT'S BRIEF

UPON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA, SECOND DIVISION

N. A. ACKER,
HECTOR T. FENTON,
FREDERICK A. BLOUNT,
Solicitors for Appellant.

IN THE

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APPELLANT'S BRIEF

This is an appeal, under Sec. 129 of The Judicial Code, 36 Statutes at Large 1087, U. S. Compiled Statutes of 1901 Supplement 1911, page 194, from an order of the United States District Court for the Northern District of California, Second Division, denying an Interlocutory Injunction.

HISTORY OF THE CASE.

Appellee herein—Searchlight Horn Company—on the 9th day of May, 1911, commenced an action at law, as plaintiff, in the United States District Court

for the Northern District of California, against Appellant herein, Sherman, Clay & Company, as defendant, for damages for infringement of a patent for Horns for Phonographs and Similar Machines, which said action on the 4th day of October, 1912, resulted, upon trial, in a verdict for the plaintiff.

Shortly after the verdict in the action at law just mentioned, appellee herein on November 25, 1912, commenced a suit in Equity, No. 15623 in the United States District Court for the Northern District of California, against appellant herein for infringement of said patent and for an injunction. In this suit a preliminary injunction was asked for and was granted on April 29, 1913. From the judgment of the Court below founded on the verdict in the action at law, appellant herein sued out a Writ-of-Error to this Court, and thereafter said appellant took an appeal to this Court from the order granting the preliminary injunction in the Equity suit No. 15623.

While the Writ-of-Error and the Appeal above mentioned were still pending in this Court, appellee herein, on July 29, 1913, commenced a suit in Equity, No. 394 in the District Court of the United States for the District of New Jersey, against the Victor Talking Machine Company for infringement of the same patent, as is shown by copy of Bill of Complaint, Record page 55, which said suit reached issue September 15, 1913, as will be seen by the copy of Answer of the Victor Talking Machine Company at Record page 64. Thereafter, on the 4th day of May, 1914, this Court having duly heard the Writ-of-Error and the Appeal above mentioned, affirmed the judgment of the Court below in the action at law (214 Fed. 86)

and affirmed the decree of the Court below granting the preliminary injunction in the Equity suit (214 Fed. 99).

On July 31, 1914, appellant herein filed its Petition in the Court below (Record page 31) praying for an order enjoining the appellee herein from further prosecuting said suit No. 15623, and from bringing any more suits of a like nature against dealers in Phonographic Horns supplied by the Victor Talking Machine Company until rendition of judgment of the District Court of the United States for the District of New Jersey, upon the Master's report on an accounting in the said Equity suit No. 394, then pending in New Jersey against the Victor Talking Machine Company.

Upon hearing this Petition the Court below on August 19, 1914, denied the application for such interlocutory injunction (Record page 130) and it is from this order denying said injunction that the present appeal is taken.

STATEMENT OF THE CASE.

Appellee herein, Searchlight Horn Company, the owner of the patent sued on, was, prior to May, 1908, engaged in the manufacture of the patented horns, and it sold said horns to dealers throughout the United States. It was not itself a user of said horns but derived its profit, or attempted to do so, by the manufacture and unconditional sale of said horns direct to dealers throughout the United States. Since the date above mentioned, it has not been engaged in such manufacture and sale. (See appellant's Peti-

tion, paragraphs XIII and XIV, Record page 36, and appellee's admission of same in Answer to Petition, paragraph 13, page 104.)

Appellant herein, Sherman, Clay & Company, is a dealer in music and musical instruments, and is one of many customers of the Victor Talking Machine Company, and all the phonographic horns complained of as infringements in the present suit were purchased by said Sherman, Clay & Company from said Victor Talking Machine Company. (Record page 33, paragraphs VII and XII, Appellant's Petition.)

This is not denied by appellee, its Answer to paragraph VII (Record page 98, section 7) having reference only to whether said Sherman, Clay & Company is one dealer of many hundreds or one of ninety; but later in its Answer to paragraph XII (Sec. 12, Record pages 103-104) appellee admits the same.

The Victor Talking Machine Company, the defendant in the New Jersey suit, No. 394, sells the phonographic horns to its customers, amongst whom is the appellant herein, and the horns complained of as infringements in the New Jersey suits are the horns sold by the Victor Talking Machine Company to its various customers, and amongst the horns so complained of are those sold to the appellant herein; and those sold to Wiley B. Allen & Company, another purchaser from the Victor Talking Machine Company, the defendant in an action at law, No. 1625, brought by appellee herein in the Southern District of California, Southern Division (Record page 34, paragraph IX); and furthermore, following along the same line of statement, if other suits were brought by appellee herein against other customers of the

Victor Talking Machine Company, the horns complained of would be horns included within those complained of in the New Jersey suit against the Victor Talking Machine Company, and that if threatening letters were sent by appellee herein to other customers of the Victor Talking Machine Company, such letters would refer to complaints about such horns as are included in the New Jersey suit. In this connection it is fairly inferable from the record that other suits and threats of suits against other customers of the Victor Talking Machine Company are not only possible but quite probable.

Record pages 34, 100, 101, 102.

It should now be clear that the Victor Talking Machine Company is the source from which spring the infringements involved in the whole matter, and that, assuming infringement, this Company in selling the horns to its various customers, throughout the United States, has usurped the place of the appellee herein, Searchlight Horn Company, which, if not thus driven out, would presumably be selling the patented horns to these same purchasers. This idea is clearly conveyed in another form of expression found in the Petition herein; namely, that all the horns which have been and may be complained of as infringements in suits already brought or to be brought against customers of the Victor Talking Machine Company are horns which are subject to the accounting in the suit pending in New Jersey against the Victor Talking Machine Company.

(Record page 35, paragraph XI.)

This is admitted in appellee's Answer to the Petition herein, except in so far as the Statute of Limitations may affect this to a slight extent.

(Answer to Petition, Record page 103.)

It is also clear that upon accounting for the infringing horns and satisfying any judgment which may be rendered in the New Jersey case, against the Victor Talking Machine Company, the horns so accounted and paid for by the Company will be released from the patent monopoly and the customers of the Company who bought said horns will not be liable to appellee herein.

(Record page 36, paragraph XIV.)

This is also admitted in appellee's Answer to the Petition herein, except in so far as the Statute of Limitations may affect it to a slight degree.

(Answer to Petition, Record page 106.)

ARGUMENT.

The seven assignments of error (Record pages 135-137) are but variations of one idea and need not be separately treated. They are all included in the sole contention that a state of facts is here presented which brings the case fully within the now well established law on the subject.

This law has lately found its final expression in a well considered case recently decided by this Court, and so completely does the doctrine of that case cover the present case that our task is simplified and is reduced to the mere necessity of brief comparison.

It is our contention that the case of *Stebler* v.

Riverside Heights Orange Growers Association, et al., 214 Fed. 550, decided May 30, 1914, by this Court, completely controls the present case, and must result in reversing the Court below.

The Stebler case marks an advance in patent law so clearly logical and inevitable as to excite wonder that its generic principle was not sooner recognized and announced. This advance is true, notwithstanding that in the memorandum opinion of the Court below in the present matter, its doctrine seems to be regarded as a restricted species, thus giving opportunity for distinctions which, we respectfully submit, are without difference.

To come at the matter speedily, we contend that the doctrine in the Stebler case, as announced by this Court, is generic, and covers any set of facts and circumstances in which there is a suit against a primary or main infringer against whom a judgment and recovery may be had which will give to the patentee all the latter could have had, or to which he would be entitled under his patent, if such infringement had not occurred; and the patentee's full measure of compensation is had and expressed when he recovers from, or is entitled to recover from the primary or main infringer, the damages he has suffered, and the gains, profits and advantages the infringer has made from his infringing acts. The foundation of this lies in the fact that when he makes such recovery, the infringing articles are released from the patent monopoly, just as fully as if he had sold them himself, and he cannot follow them beyond the primary or main infringer. This being true, and the doctrine of the Stebler case being as broad and gen-

eric as we read and state it, it makes not one bit of difference by what name we call the primary or main infringer, whether he be a manufacturer, or a seller; and it makes no difference whether the ultimate infringers be sellers or users.

If there be a fountain head from which *full compensation* can flow, and if the patentee seek his compensation from that source, he can, under the principle and doctrine of the Stebler case, be restrained from seeking such compensation at the same time from the numerous rivulets which have their source in such fountain head; at least, until such time as he shall find the head exhausted. There is no point to be made in "manufacturer" nor in "user," It so happened in the Stebler case that these were the forms or species appearing, and so also in previous cases, more or less approaching the doctrine under consideration; because those forms are the most natural, the most common. A manufacturer is generally the primary or main infringer; and a user is commonly the ultimate infringer. Because of what opposing counsel has called a "tactical" advantage, it is common to sue a user, and quite frequently, in an excess of "tactical" advantage, to sue a goodly number of users; and this is allowable. But when he forgets himself and sues the manufacturer, whether before or after he sues the users, and all the suits are pending, then Equity will interpose its injunction to the suits against the users, and require him to seek his compensation first from the manufacturer.

The reasons for this as announced by this Court in the Stebler case are such as apply with equal force, are just as cogent, just as logical, just as true, in

case the *main* infringer be a wholesale seller, and the ultimate infringers be jobber sellers, or retail sellers, *provided* the circumstances of the case be such that the patentee can recover, and seeks to recover from the main infringer his *full compensation.*

If we can show this, it is clear that the Court below is in error, for by reference to the Memorandum Opinion (Record pages 130-133) it will be seen that though His Honor, Judge Van Fleet, was, at first, upon the argument of the Petition, impressed with the applicability of the principles in the Stebler case (he cited only the Stebler case in the Court below, 211 Fed. 985, though the appeal therefrom had at that time been decided but not published) he afterwards concluded that his first impression was erroneous, and thereupon denied the Petition upon the distinction that the Stebler case presented a manufacturer and numerous users, while the present case presents a main seller, and numerous resellers who purchase from the main seller.

Let us now see whether this is, in reality, a difference which means a departure from the doctrine or principle announced by this Court in the Stebler case.

The Court says:

> "The plaintiff is a manufacturer and seller of the machines covered by his patent"—

This was true of the present appellee, the Searchlight Horn Company.

And the Court further says:

> "—and the sole profits which he derives from his

patent are those arising from the manufacture and sale of the machines covered thereby."

True also of Searchlight Horn Company.

Further the Court says:

> "The suits brought by the plaintiff, and sought to be enjoined by the petition of the defendants, are against users of machines which had been manufactured and sold by the defendants prior to the rendition of the opinion of this Court and the entry of the interlocutory decree in the lower Court pursuant thereto."

In the present case the suits sought to be enjoined are against resellers of the horns purchased from a main seller.

The Court goes on to say:

> "The theory of the defendants' petition is that, under the accounting ordered in the interlocutory decree entered in the Court below, the plaintiff would receive full compensation for all infringing machines which had been manufactured and sold by the defendants in violation of the plaintiff's patent; that such machines would be thereafter released from any claim on the part of the plaintiff by virtue of his patent; and that the plaintiff, pending the entry of the final judgment against the defendants in this suit, is not entitled to bring or maintain any suits against the persons or corporations, customers of the defendants, to whom the infringing machines had been sold by the defendants, and who were users of them at the time of the institution of the various suits sought to be enjoined."

The theory of the defendant's petition in the present case is that under the accounting prayed for and possible, in the pending suit against the Victor

Talking Machine Company in New Jersey, the Searchlight Horn Company, appellee herein, will receive full compensation for all infringing horns sold by the Victor Talking Machine Company in violation of appellee's patent; that such horns would be thereafter released from any claim of appellee; and that appellee, pending the entry of final judgment against the Victor Talking Machine Company in the pending New Jersey case, is not entitled to bring or maintain any suits against customers of the Victor Talking Machine Company (in the present case, Sherman, Clay & Company) to whom the infringing horns had been sold by the Victor Talking Machine Company, and who were sellers of them at the time the various suits were brought.

These theories are manifestly alike. Verbally they differ in the use of manufacturer and user on the one hand, and seller and purchaser on the other hand. But the *essential* fact of each statement of the theory is identical, namely, that if *full compensation* may be had from a central or main infringer, the infringing devices are released from the monopoly of the patent, and cannot be followed beyond the main infringer. What possible distinction in this principle can be founded upon whether the main infringer be a manufacturer or a seller, or whether the succeeding infringer be a user or a reseller? None, we say, for these are but words; the real thing is the *full compensation,* resulting in release from the patent monopoly.

Continuing, the Court in the Stebler case says:

> "The defendants were manufacturers of and general dealers in machinery of various kinds used in the business of fruit packing, and it is

> not to be denied that the institution and prosecution of the suits set forth in the petition, and similar suits, against customers of the defendants, would have the effect of harassing and annoying the defendants' customers; that they would be put to heavy expense; and that the probable outcome would be the loss to the defendants of the patronage of such customers and the consequent depreciation and destruction of their business as dealers in packing house machinery and supplies."

Is this not true of the present case? Is it not true that frequently in patent cases, it is thought a terrifying pressure on users and customers is a wholesome thing, one well adapted to bring the main infringer to time, a "tactical" advantage as counsel says. The number of these tactical suits is merely a matter of degree. In the Stebler case the maximum was, perhaps, reached. In the present case we find two such suits against customers, and three letters called by counsel "warnings"; but the potentiality of others is not eliminated.

Judge Morrow continues:

> "The bill of complaint filed by the plaintiff in this case asked that the defendants be decreed to account for and pay over unto the plaintiff the gains and profits realized by the defendants from and by reason of the infringement, and further, that the defendants be decreed to account for and pay over unto the plaintiff the damages suffered by him by reason of the infringement."

In the case now pending against the main infringer, Victor Talking Machine Company, in New Jersey, the prayer is the same, that is, for profits and damages. The prayer reads (Record page 62):

> "Third—That it be ordered, adjudged and decreed that the plaintiff have and recover from the defendant the profits realized by the defendant and the damages sustained by the plaintiff from and by reason of the infringement aforesaid."

This Court in the Stebler case continues:

> "There was thus distinctly provided a method whereby the plaintiff might recover all losses suffered by him by reason of the infringement of his patent—those in the nature of damages as well as those in the nature of profits received by the infringing defendants."

Precisely the same method is provided in the pending case against the Victor Talking Machine Company.

To quote further:

> "There is no controversy in the case as to the financial ability of the defendants to respond to whatever judgment might be finally rendered against them upon the final hearing of the case."

There is no controversy here as to the financial ability of the Victor Talking Machine Company to respond to judgment.

The Court continues:

> "To permit the plaintiff, under such circumstances, to institute and maintain suits against the customers of the defendants, to whom the infringing machines have passed, would, it is obvious, be harassing, annoying, and expensive, and would place the plaintiff in a position to maintain the suits to recover full compensation in a double proportion for the losses suffered by him by reason of the infringement."

This is true of the present case.

Judge Morrow continues:

> "The plaintiff derives his profits from the the manufacture and sale of the fruit grading machines covered by the patent. These profits consist of the difference between the cost of manufacture and the prices for which he sells the machines. These profits are therefore the only compensation which he receives for the machines manufactured and sold by him during the entire life thereof. When final judgment is entered against the defendants pursuant to the accounting which has been ordered against them, the plaintiff will receive thereunder full compensation for the use of the machines by the vendees of the defendants herein for such period as they are capable of being used, in the same manner and to the same extent as he would have done had he sold the machines himself. This being true, a decree against the defendants for the profits which they received by reason of the sales of the infringing machines, together with whatever damages the plaintiff may have suffered by reason thereof, must be held to vest the right to the use of the machines in the defendants' vendees free from any further claim by the patentee."

Here we find finally and fully stated the idea of *full compensation* resulting in a release of the infringing devices from the monopoly.

It cannot be said that a material difference exists between a *manufacturer* infringer paying the full compensation and a seller infringer doing so, nor between the release of the infringing devices in the hands of one form of customer, namely, a user, and another form of customer, to-wit, a reseller. The essential things are *full compensation* and *release,* and it is immaterial from what source the former

comes, or in whose hands the latter is effective. If these are the essential things, it is clear that the statement of the Court below that all the defendants to these suits are guilty of precisely like acts of violation of plaintiff's rights, differing only in degree but not in kind, is wholly beside the mark. It may be true, and they may be, as the learned Judge says, both tort-feasors and equally liable to a suit by plaintiff at his pleasure or election, and yet when plaintiff has *elected to sue both* and can get from the main tort-feasor *full compensation,* he is not permitted to continue his suits against the purchasers of the main tort-feasor, nor to bring other suits against other purchasers of the main tort-feasor, whether said purchasers be users or resellers, for in either case the infringing devices purchased by them and settled for by the main tort-feasor will be released from the patent monopoly. Nor does it matter, as the Court below seems to imply, that in the present case the suits against the purchaser were brought before the suit against the main infringer. This was the case in *Kelley* v. *Ypsilanti Mfg. Co.,* 44 Fed. 19, cited by this Court in the Stebler case. Notwithstanding the supposed distinction between manufacturer and user, and seller and reseller, which is clearly the basis for the denial of the Petition by the Court below, there still seems to have been an undercurrent of doubt running in the minds, both of the Court and opposing counsel, as to the reality of the distinction, for we find injected into the Answer of Appellee and in the memorandum of the Court, the point of the Statute of Limitations.

Having brought the suit against the main in-

fringer, Victor Talking Machine Company, after those brought against the present appellant, and Wiley B. Allen & Company, customers of Victor Talking Machine Company, it is pointed out that the six year Statute of Limitations will not run as far back in the main-infringer case as in the customers' cases, and that, therefore, appellee can not secure compensation from the main infringer for all the horns for which the customers will have to account for. This seems to us more a matter of detail degree than of principle, and his Honor in the Court below seems to connect this point up with what appears to us to be his doubt on the main issue, for he says:

> "Could plaintiff have a full recovery in the New Jersey case for all the damages suffered from the acts of the defendant here, *there would perhaps be more analogy* between this case and those relied on, but the facts show that by reason of the intervention of the Statute of Limitations, the same extent of relief sought against the present defendant under the allegations of the bill could not be had against the New Jersey defendant."

We recognize, of course, that the smallness in reality of the difference in the compensation due to this fact, has nothing to do with the soundness of the point, if it be sound at all. But we submit that it has nothing to do with main principle and doctrine announced by this Court in the Stebler case. It must be borne in mind that our Petition is *not for a dismissal* of the suits against the customers, nor for a *perpetual* injunction against their further prosecution, nor for a *perpetual* injunction against the bringing of more similar suits, but our Petition prays for a stay in

these matters, only until the recovery in the main suit in New Jersey. If that recovery is short of *full compensation* for any reason whatsoever, the suits against the customers may continue for any difference due to the Statute of Limitations. But, in a broad sense, if the beneficent doctrine of the Stebler case, a doctrine founded in Equity and good conscience, is to be subverted because appellee delays to bring his suit against the main infringer (and he may so delay for one day only) then this doctrine is in vain.

We, therefore, submit that the present appeal is well taken, in that, under the law as announced by this Court in the Stebler case, the Court below should have granted our Petition for an Injunction.

Respectfully submitted,

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